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national farmers union
In Union Is Strength



National Farmers Union

Memorandum

to the

Canadian Transport Commission

Branch Line Inquiry
on the subject of
Proposed Short Line Rail Operations

Saskatoon, Sask.

May 30, 1985

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We accept the opportunity to outline our views on certain issues under review in your current branch line inquiry.

Before your Commission is a proposal of Central Western Railway Corporation for the acquisition and operation of the Stettler - CN subdivision as a separate short line rail entity.

The initial reaction to the proposal brings to mind the historic pattern of rail line development in Canada and raises the question: "Is history repeating itself?" Numerous smaller railway companies have been absorbed over time into the CN and CP systems for economic reasons.


The concept proposed by the CWR is not one of constructing a new rail system competitive with CN Rail or CP Rail. It represents instead a beginning toward splintering off from the main carriers, certain branch lines CN or CP may regard as uneconomic or redundant. At the same time it will remain dependent on the main line carrier for survival.

Indeed, the concept advanced by the CWR is:

"to provide cost savings to the mainline carriers so that there is a general reduction in upward pressures on rate by separating branch line costs from the costs of the mainline carriers;"

and..

"to provide a 'stand alone' system for the operation of branch lines which are, at present, uneconomical for the main line carriers, but which would be profitable for a branch line operator."
(underlining ours)



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Toward this end the CWR has sought and received legislative incorporation from the Province of Alberta. It is seeking similar corporate legislation from the Province of Saskatchewan and apparently wishes to do so in the Province of Manitoba. It must be accepted that CWR has the full backing of the Alberta government in its venture.

A number of vital questions need to be answered in respect to such proposed operations.

The first and most vital relates to the status of such rail lines within the context of a national transportation policy. Involved essentially in the intraprovincial movement of commodities, such lines may no longer be considered as works for the general advantage of Canada and, therefore, beyond jurisdiction of the Canadian Transport Commission. We do not regard as progressive, actions which serve to fragment a national rail transportation system in this manner.

Another relates to funding. The submission of the CWR outlines estimated rehabilitation costs for the Stettler subdivision to be \$12.9 million. It concedes that "it is unlikely that funds will be made available to a branch line operator through the Branch Line Rehabilitation Program". CWR says it assumes that the costs of rehabilitation will need to be covered in the projected rate split.

CWR additionally states that the major expenditure faced is the land, track and O.T.M. It expresses the preference that these be acquired through lease/purchase. Other required physical works include a shop, scales, general office, facilities for producer loading and trackside elevators and interchange and/or connecting tracks as required. The acquisition and refurbishing of grain cars at an estimated cost of \$15,000 each and locomotive power are also costs CWR will need to expend.

In total, these various requirements represent an impressive array of start-up cost items. The Commission and the public needs to be fully informed of financial details related to start-up costs. In the U.S. where numerous short line systems exist, they have relied heavily on public funding for financial support.

CWR is relying on a 50% portion of the total through haul rate for tonnage generated on the line and 20% of the total through haul billed rate.

The Stettler subdivision is a grain-dependent line. Revenue projections are based on the assumption that grain haul rates will escalate by 5% per year. As we know this will not be the case for 1985/86 and 1986/87.

An additional assumption is that the volume shipped will be in the range of 150,000 tonnes annually. A factor vital to the viability of the operation will hinge on the future method of payment of the Crow benefit (Grain Transportation Refund). Should the entire G.T.R. be paid in future to producers, it will create a competitive umbrella for the trucking industry for the short haul movement of grain from the same area to ATL or elsewhere.

The competitive factor will be complicated by the attitude of the grain companies located on the proposed short line. It is difficult to imagine that they will at all times wish to have grain purchased at their facilities shipped to the Alberta Terminal in Edmonton for removal of dockage, especially if they have their own terminal cleaning facilities at the west coast. This could result in the companies trucking some of their own grain out of the area to their own main line elevator facilities for loading and shipment.

We raise these possibilities and options since the submission of the CWR does not indicate what attitude the elevator companies on the Stettler sub are taking toward this proposal.

An additional factor to consider is that Alberta Terminals Ltd. propose to compete for grain purchases with existing elevator companies with trackside mobile elevators, the purpose for which it says is to:

"develop an alternative to the traditional 'country elevator' which can be located in areas with insufficient elevator capacity on a temporary basis. The intention is to provide the farmers in such regions with an increase in competition and available delivery points."

A close linkage between the Alberta Government owned A.T.L. and C.W.R. is indicated in this proposal. It appears to form part of a broader ambition of the Alberta government to effect greater deregulation of the feed grain market.

In a recent Alberta Government submission to the Minister Responsible for the Canadian Wheat Board, dismantling of some Canadian Wheat Board powers is advocated which would open the export market for feed grains to private companies as well. Tied in is its advocacy for a pay-the-farmer method of payment of the Crow benefit.

As an organization that has strongly defended the need to retain a viable branch rail line system to serve farmers and rural communities, it appears contradictory to express serious reservations for a proposal which ostensibly is designed to maintain the operation of this and possibly other branch rail lines.

We do, however, have serious reservations both in principle and on the merits of this proposal. These we summarize as follows:

1. The proposed CWR operation is entirely dependent upon CN Rail in the first instance and Alberta Terminals Ltd. in the second instance for the success of its operations. It effectively has no bargaining power in negotiating the terms and conditions of its operations with CN Rail upon which it relies totally for the movement of grain from the Camrose sub to ATL for reloading and return of cars. It essentially remains a branch line operation of CN.

2. It can provide no services to producers on the Stettler sub which CN Rail cannot itself provide if it wishes to do so since compensatory grain freight rates are no longer at issue.

3. It offers producers no freight advantage but relies instead on escalating freight rates to sustain its operations. ATL on the other hand will be free to negotiate lower variable rates with CN to improve its own profit position.

4. Unlike CN Rail, it has no operating base other than the Stettler sub at this time which can cross-subsidize its operations if necessary.

5. CWR has no assurance all elevator companies will want to have their grain moved to ATL, nor that it will not be adversely affected by trucking competition for the movement of grain from the Stettler sub territory or directly from country elevators on the Stettler sub to main line points.

6. The CWR application may be important only insofar as it enhances other objectives. A major objective of the Alberta government in supporting the establishment of short line operations is in part, we believe, to improve the financial operations of the government-owned Alberta Terminals Ltd. which it hopes to eventually utilize as a direct instrument for the export sale of feed grains. The motivation for the organization of the CWR is, therefore, very much linked to the broader objective of eroding the jurisdiction of the Canadian Wheat Board in the export sale of grain.

7. Should the precedent be set of authorizing the establishment of a short line rail company as outlined by CWR, the objective is to expand the concept to other provinces. Former federal government terminals would be the focal point of such a policy. We perceive no advantage to Canada from the operation of separate provincial railways. Inevitably public funding will be demanded.

8. The application relies heavily on information it provides on the operations of numerous U.S. short line railway companies. We submit the U.S. situation is not the Canadian situation. In Canada we are served by two major rail lines who also own all the branch lines. U.S. grain marketing is under an entirely open market system. The short line system in that country is politically neutral in its relationship to the marketing system. The CWR concept is not, since it is intended to serve as a means to an end of a well known political objective of the Alberta government.

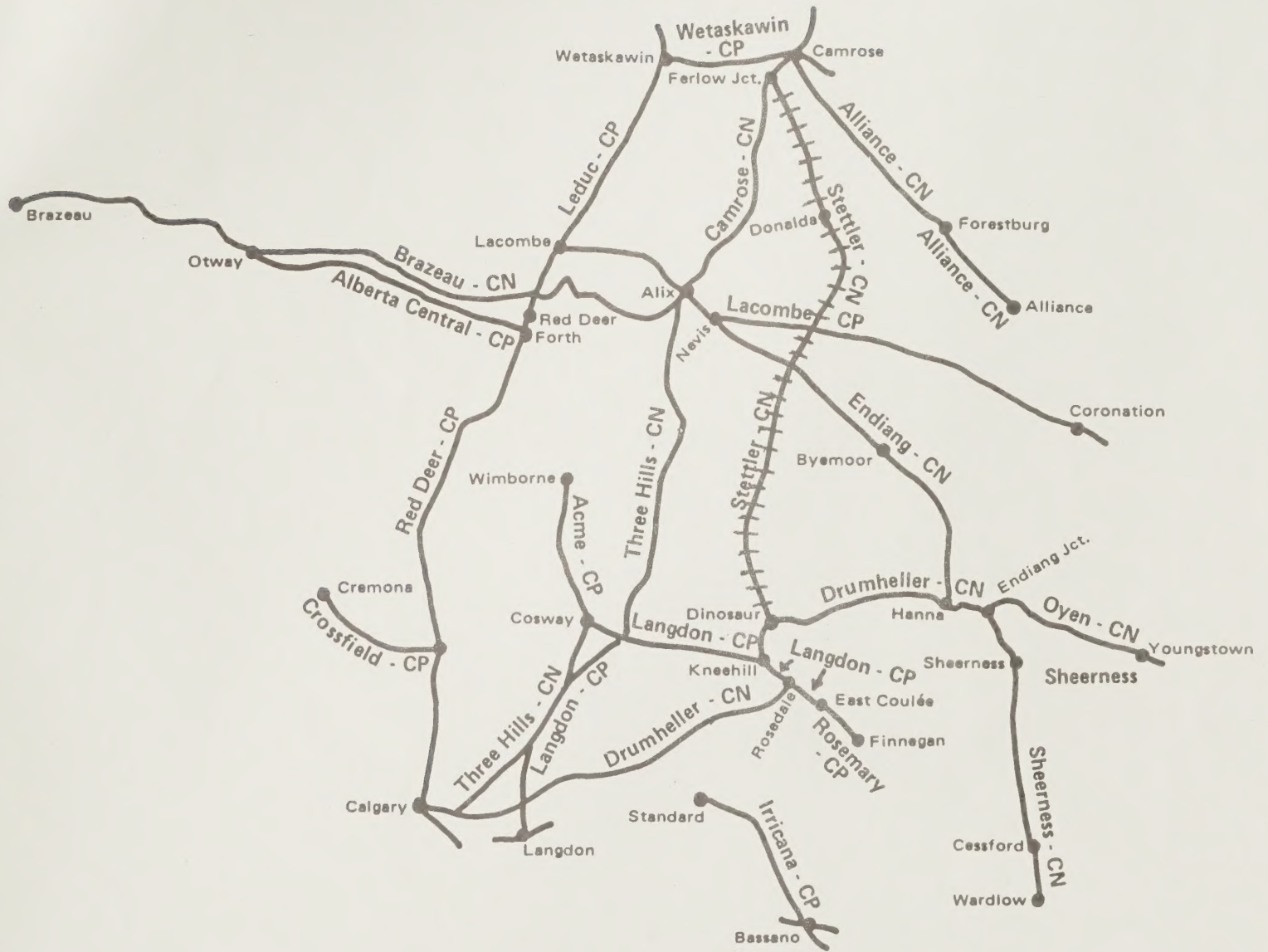
The application of CWR is, therefore, important far beyond its superficial economic projections. If granted, it will provide further leverage to the Alberta government and other open market interests to pursue the objective of breaking down the export marketing jurisdiction of the Canadian Wheat Board. This would have potentially adverse economic effects to every prairie grain producer, the orderly

grain marketing system and the export marketing program of the C.W.B.

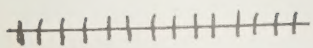
For these several reasons, we urge the Commission recommend against the granting of this short line railway application and similarly so report to the Minister of Transport.

All of Which is Respectfully
Submitted by:

NATIONAL FARMERS UNION



LEGEND



Proposed Short Line of Central Western Railway Corporation



national farmers union
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